

IN THE UNITED STATES BANKRUPTCY COURT
FOR THE DISTRICT OF DELAWARE

In re:)
SOUTHCROSS ENERGY PARTNERS, L.P.,) Chapter 11
et al.,) Case No. 19-10702 (MFW)
Debtors.1) Jointly Administered
Re: Docket No. 9

SUPPLEMENTAL DECLARATION OF MICHAEL B. HOWE IN SUPPORT OF
MOTION OF DEBTORS FOR ENTRY OF INTERIM AND FINAL ORDERS
AUTHORIZING (I) DEBTORS TO (A) PAY PREPETITION EMPLOYEE
OBLIGATIONS AND (B) MAINTAIN EMPLOYEE BENEFITS PROGRAMS AND PAY
RELATED ADMINISTRATIVE OBLIGATIONS, (II) CURRENT AND FORMER
EMPLOYEES TO PROCEED WITH OUTSTANDING WORKERS' COMPENSATION
CLAIMS, AND (III) FINANCIAL INSTITUTIONS TO HONOR AND PROCESS
RELATED CHECKS AND TRANSFERS

Michael B. Howe declares and says:

1. I am Senior Vice President and Chief Financial Officer of each of the above-
captioned debtors (collectively, the "Debtors" or "Southcross"). Previously, I served as Chief
Financial Officer of the Medical Benevolence Foundation. Prior to that, I was vice president of
several departments at EnSCO PLC (including strategic planning, finance and accounting, human

1 The debtors and debtors in possession in these chapter 11 cases, along with the last four digits of their
respective Employer Identification Numbers, are as follows: Southcross Energy Partners, L.P. (5230); Southcross
Energy Partners GP, LLC (5141); Southcross Energy Finance Corp. (2225); Southcross Energy Operating, LLC
(9605); Southcross Energy GP LLC (4246); Southcross Energy LP LLC (4304); Southcross Gathering Ltd. (7233);
Southcross CCNG Gathering Ltd. (9553); Southcross CCNG Transmission Ltd. (4531); Southcross Marketing
Company Ltd. (3313); Southcross NGL Pipeline Ltd. (3214); Southcross Midstream Services, L.P. (5932);
Southcross Mississippi Industrial Gas Sales, L.P. (7519); Southcross Mississippi Pipeline, L.P. (7499); Southcross
Gulf Coast Transmission Ltd. (0546); Southcross Mississippi Gathering, L.P. (2994); Southcross Delta Pipeline
LLC (6804); Southcross Alabama Pipeline LLC (7180); Southcross Nueces Pipelines LLC (7034); Southcross
Processing LLC (0672); FL Rich Gas Services GP, LLC (5172); FL Rich Gas Services, LP (0219); FL Rich Gas
Utility GP, LLC (3280); FL Rich Gas Utility, LP (3644); Southcross Transmission, LP (6432); T2 EF Cogeneration
Holdings LLC (0613); and T2 EF Cogeneration LLC (4976). The debtors' mailing address is 1717 Main Street,
Suite 5300, Dallas, TX 75201.



resources, and treasury) and held positions at Devon Energy Corporation and Enron Corporation. I hold a master's degree in business administration from the University of Texas at Austin and a bachelor's degree in accounting from Oklahoma State University and am a Certified Public Accountant. I am familiar with Southcross's day-to-day operations, businesses, and financial affairs.

2. I submit this supplemental declaration (the "**Declaration**") in further support of *Motion of Debtors for Entry of Interim and Final Orders Authorizing (i) Debtors To (a) Pay Prepetition Employee Obligations and (b) Maintain Employee Benefits Programs and Pay Related Administrative Obligations, (ii) Current and Former Employees To Proceed with Outstanding Workers' Compensation Claims, and (iii) Financial Institutions To Honor and Process Related Checks and Transfers* [D.I. 9] (the "**Wages Motion**").² I have reviewed the Wages Motion or have otherwise had its contents explained to me, and it is my belief that the relief sought therein is essential to the uninterrupted operation of the Debtors' businesses.

3. On April 1, 2019, the Debtors filed the Chapter 11 Cases. On April 2, 2019, the Court entered the *Interim Order Authorizing (i) Debtors To (a) Pay Prepetition Employee Obligations and (b) Maintain Employee Benefits Programs and Pay Related Administrative Obligations, (ii) Current and Former Employees To Proceed with Outstanding Workers' Compensation Claims, and (iii) Financial Institutions To Honor and Process Related Checks and Transfers* [D.I. 54].

4. Except as otherwise indicated, the facts set forth in this Declaration are based upon my personal knowledge, my review of the relevant documents, information provided to me

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Wages Motion.

by employees working under my supervision, or my opinion based upon experience, knowledge, and information concerning the operations of the Debtors and the oil and gas industry as a whole. If called upon to testify, I would testify competently to the facts set forth in this Declaration.

THE NON-INSIDER RETENTION PROGRAM

5. On February 11, 2019, Southcross adopted the Non-Insider Retention Program, which covers 36 key non-insider employees.³ Cognizant of the impending restructuring needs and their accompanying challenges, Southcross took proactive steps to retain employees identified as essential to the reorganization effort and the maximization of the value of their estates. Accordingly, Southcross instituted the Non-Insider Retention Program to (a) maintain vital individuals across the different areas of their businesses, (b) preserve institutional knowledge during a time of uncertainty, (c) support continued operations as the Debtors entered chapter 11, and (d) facilitate the Debtors' emergence from chapter 11 with a stable and strengthened business. In sum, the 36 non-insider employees (the "**Participants**") for whom Southcross seeks final authority of the Non-Insider Retention Program are essential to the company's reorganization efforts.

6. None of the 36 Participants covered by the Non-Insider Retention Program is an insider under the Bankruptcy Code:

- none is an officer appointed by Southcross's board of directors;
- none has the title of Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel, Senior Vice President, or Vice President;
- none reports to the board of directors or to the CEO;⁴

³ One additional employee—the Manager, Treasurer & Investor Relations—is a statutory insider because she is related to a current member of Southcross's board of directors. Accordingly, this employee has been removed from the Non-Insider Retention Program.

⁴ The Director, Human Resources temporarily reported to the CEO for approximately eight weeks but now reports to me.

- none controls the Debtors' financial or strategic decisions or corporate policy; and
- none is listed in Southcross's public securities filings as an insider.

7. The Participants span the Debtors' functional departments, including (a) natural gas and NGL processing and transporting, (b) environmental, health, safety, and training, (c) accounting and internal audit, (d) commercial contracts and services, (e) engineering, measurement, and mechanical integrity, and (f) human resources. Absent the Non-Insider Retention Program, I believe that the Debtors face a very real risk that some or all of the 36 Participants will depart for other employment opportunities, given the demanding workload accompanying the bankruptcy process as well as the uncertainties surrounding the Debtors' reorganization and potential sale to a third party. Indeed, the employment market in Dallas (where the Debtors are headquartered) is very competitive, making Southcross's employees very attractive to competitors and replacements difficult to locate.

8. These concerns are based in part on the Debtors' experience over the last several months. Over the past two fiscal quarters, 25 employees left Southcross for other opportunities. Some of these individuals departed despite offers of meaningful retention payments, and the Debtors have not yet filled all of their positions (particularly the now-vacated divisional director positions). Finding replacements has been difficult for the Debtors given the destabilizing effects of the Chapter 11 Cases. It is my understanding that the Participants who remained with the Debtors did so with the expectation that the Debtors would honor the Non-Insider Retention Program, and I believe that the Debtors' failure to do so would result in an exodus of critical employees and irreparable harm to the Debtors' estates.

9. The Non-Insider Retention Program is relatively modest, with total program payments of approximately \$2.4 million and the largest retention payment to any individual of

less than \$134,000. The Non-Insider Retention Program is structured such that the Participants would receive lump-sum cash payments in the following installments: 25% on June 30, 2019; 25% on September 30, 2019; and 50% on December 31, 2019. Southcross designed this timeline to align with key dates for potential outcomes of a sale or plan process. For an employee to be paid on each installment date, the employee must not have resigned nor have been terminated (other than by reason of an involuntary termination by the Debtors without cause). The Non-Insider Retention Program is memorialized through letter agreements with each Participant.

10. I believe that the Non-Insider Retention Program is both reasonable in scope (*i.e.*, number of employees covered) and amounts (*i.e.*, aggregate and individual retention payments). Moreover, Alvarez & Marsal North America, LLC (“**A&M**”), the Debtors’ financial advisor, reviewed the Non-Insider Retention Program for reasonableness and compared the program to comparable programs approved by bankruptcy courts of companies whose assets and revenues were one-half to two times the size of Southcross’s. A&M has advised the Debtors that the Non-Insider Retention Program falls squarely within industry standards.

THE SHORT-TERM INCENTIVE PLAN

11. The Debtors also have a long-standing annual incentive plan, the STIP, which has been in place, in its current form, for over a decade. The STIP was not altered or amended in any way in conjunction with the Chapter 11 Cases, and it has been consistently used to drive employee performance and productivity. The STIP is not a retention plan. I believe that the STIP plays a crucial role during the pendency of the Chapter 11 Cases, since it is a tool to maximize the value of the Debtors’ estates by motivating employees through a program they have come to rely on as part of their annual compensation.

12. The STIP is carefully calibrated to ensure that eligible employees are rewarded for their efforts toward the Debtors' financial performance and productivity, as well as their contributions to the Debtors' achievement of maximum workplace safety and environmental compliance. The STIP is offered to all non-insider employees⁵ and identified in each of their offer letters or promotion materials. Each employee's STIP opportunity is based on his or her role within the Debtors' businesses and is discretionary at the company-wide and individual employee level. Certain metrics, financial and otherwise, are considered when determining each employee's bonus, and certain minimum performance thresholds must be attained prior to the payment of any compensation under the STIP. Accordingly, I believe that the STIP—in place for more than ten years—has been carefully calibrated to incentivize employees to meet financial goals as well as other departmental objectives.

13. The STIP is a component of each employee's regular compensation package, calculated based upon a percentage of an employee's annual base salary, earned over the course of a calendar year, and paid in March of the following year.⁶ One participant in the STIP is a Vice President. Like all other employees under the STIP, his entitlement to a bonus is based upon the financial goals and departmental objectives established by the Debtors. Moreover, while the STIP is not a retention plan, I do not believe that this one Vice President is an insider. Like all 199 employees in the STIP, he:

- is not an officer appointed by Southcross's board of directors;
- does not have the title of Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel, or Senior Vice President;

⁵ The STIP is also offered to the Manager, Treasurer & Investor Relations, who is a technical insider for reasons explained above and has been removed from the Non-Insider Retention Program.

⁶ The STIP for the 2019 calendar year will be paid in March of 2020.

- does not report to the board of directors or to the CEO;⁷
- does not control the Debtors' financial or strategic decisions or corporate policy; and
- is not listed in Southcross's public securities filings as an insider.

CONCLUSION

14. I believe that both the Non-Insider Retention Program and the STIP are crucial to the Debtors' business operations during the pendency of the Chapter 11 Cases, as they will boost employee morale, dedication, confidence, and cooperation and maximize the Debtors' ability to reorganize successfully. Conversely, failure to honor these programs would irreparably impair the Debtors' relationships with their employees, adversely impact the Debtors' ability to deliver to their customers superior products and services, and hinder the Debtors' restructuring efforts. Moreover, these programs have been reviewed by Southcross's management and board of directors, A&M, and the prepetition and post-petition lenders' advisors, which have all determined that the Non-Insider Retention Program and the STIP are both reasonable and essential programs.

15. Failure to authorize the Non-Insider Retention Program and the STIP on a final basis would jeopardize the Debtors' restructuring efforts, create additional costs in hiring and training new employees, and risk environmental and safety issues. In sum, I believe that these programs are reasonable, essential to the Debtors' businesses and reputation, and in the best interests of all of the Debtors' stakeholders.

[Signature page follows]

⁷ The one exception is the CEO's executive assistant.

I, the undersigned Chief Financial Officer of Southcross Energy Partners, L.P., declare under penalty of perjury that the foregoing is true and correct.

Dated: April 16, 2019

/s/ Michael B. Howe

Michael B. Howe
Chief Financial Officer